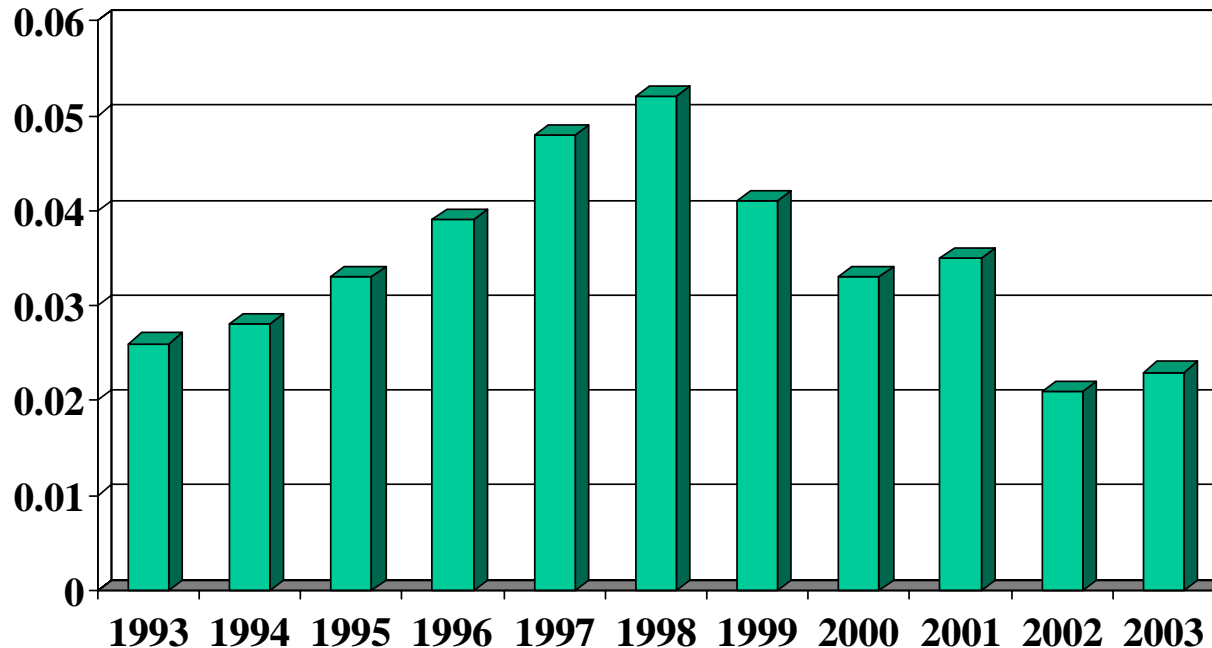


Maine Hospital Financial Performance 1993-2003

Update from Nancy Kane, D.B.A.
Professor of Health Policy & Management,
Harvard School of Public Health,
to the Commission to Study Maine's Hospitals
September 2004

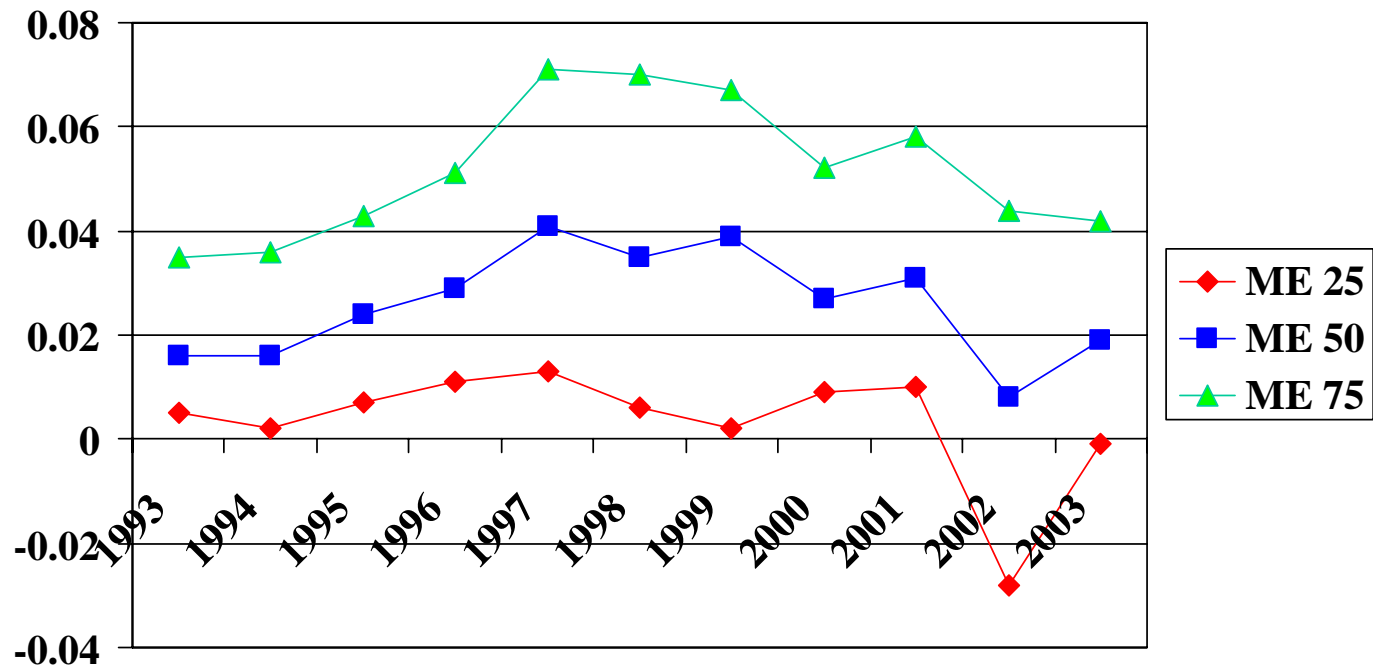
- These slides provide a brief update of Maine hospitals' financial performance from 2003; a final full report on hospital finances will be presented later this fall.
- 2003 Data on US and New England hospitals – used as benchmarks in earlier presentations – will not be available until early 2005, so those benchmarks are not included in these slides.
- Overall, 2003 shows a slight improvement in profitability over 2002. The improvement mostly came from the bottom quartile of performers, while the top quartile performers were somewhat/slightly less profitable in 2003 than in 2002.

Aggregate Operating Margins



- From 2002 to 2003 there was a slight improvement in aggregate total operating margins (profit from operations).

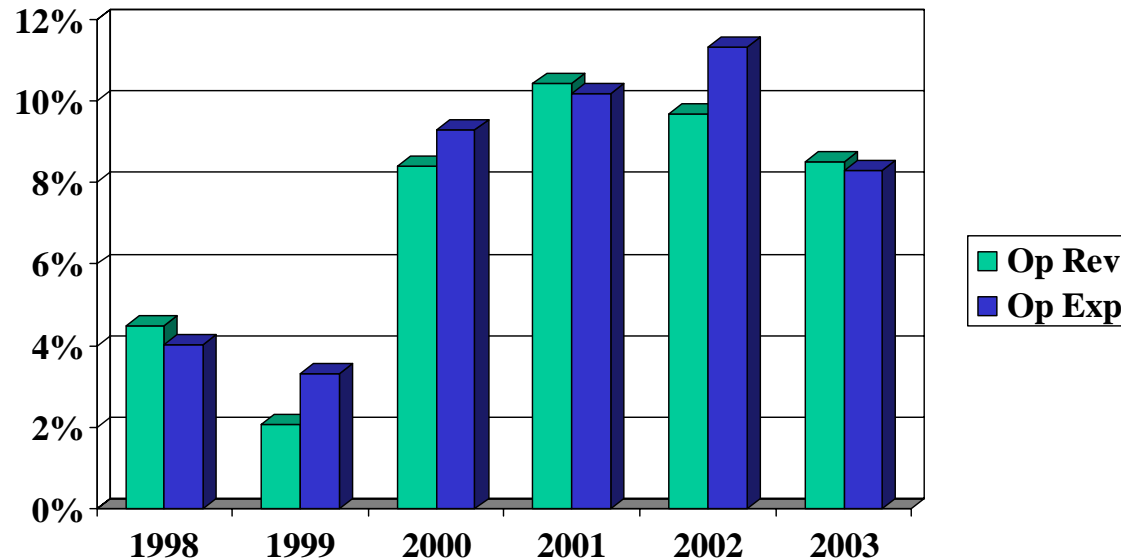
Operating Margin Distribution 1993-2003



- The aggregate improvement in the previous slide came primarily from the lower performing half of hospitals (the two lower lines in the chart); the top performers declined slightly.

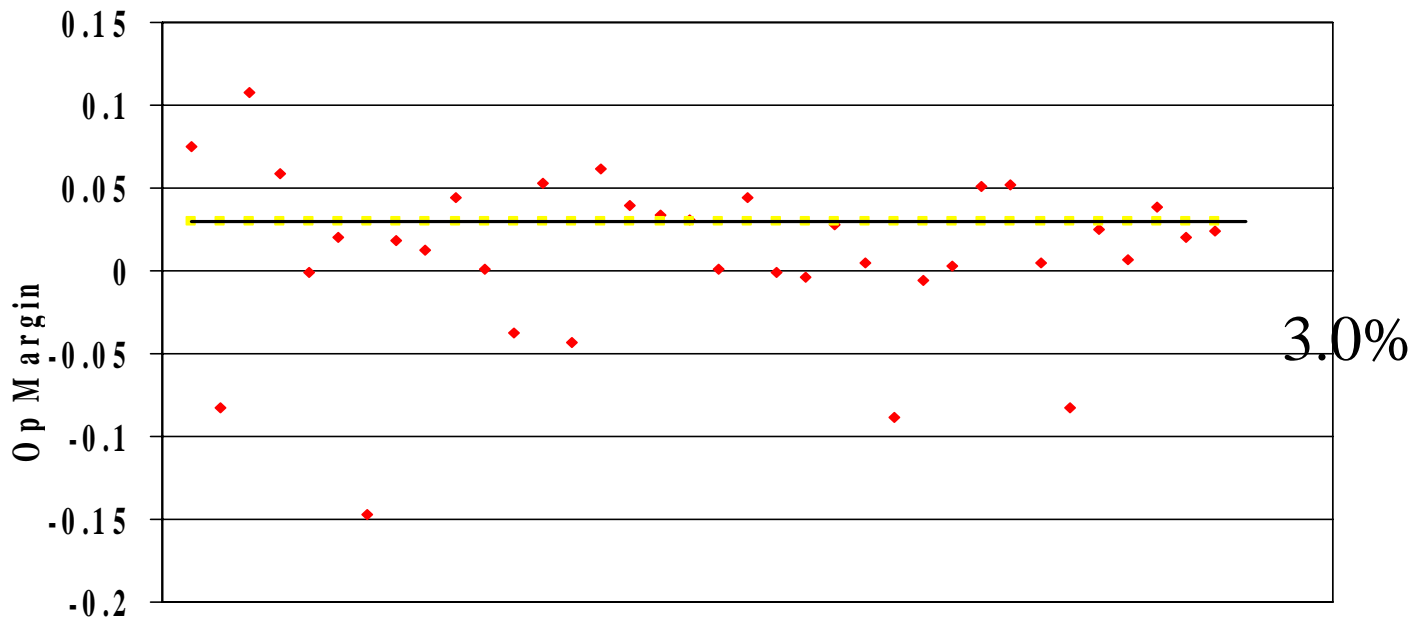
Aggregate Growth Rates

Total Operating Revenue and Total Operating Expense



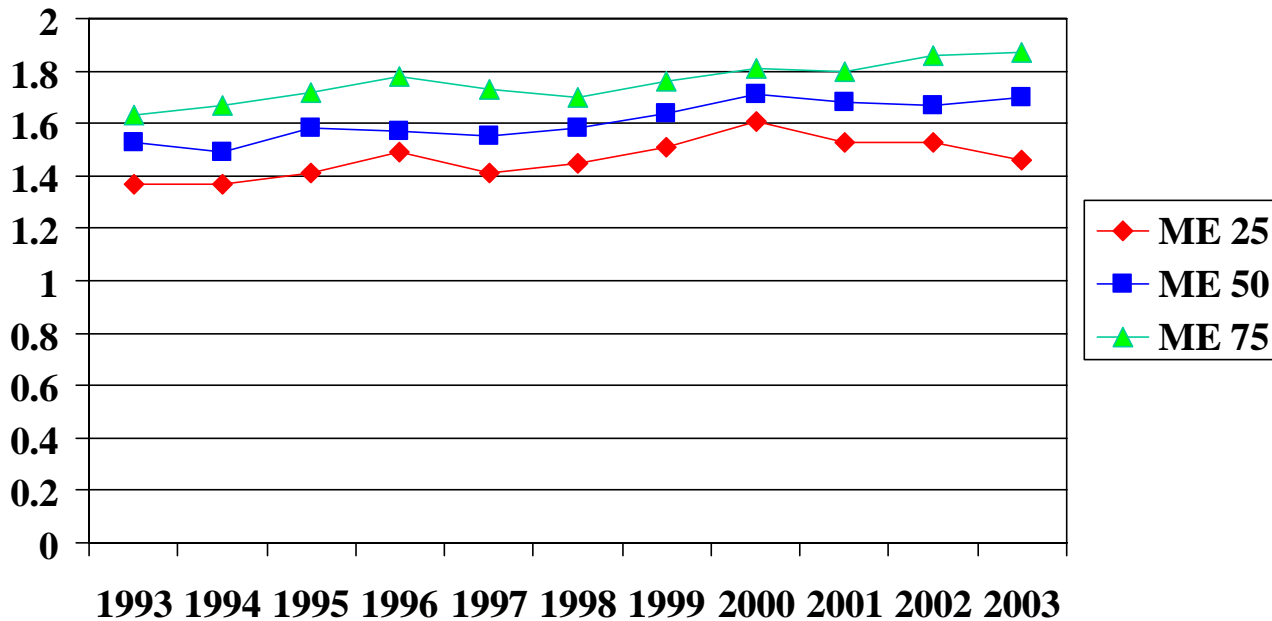
- Margins decline when expenses grow faster than revenues. In 2003 growth rates in both revenues & expenses slowed to roughly 8%/year, with revenues growing just slightly faster than expenses. This is a big improvement over 2002, where expense growth outstripped revenue growth by a full percentage point.

2003 Distribution of Operating Margins



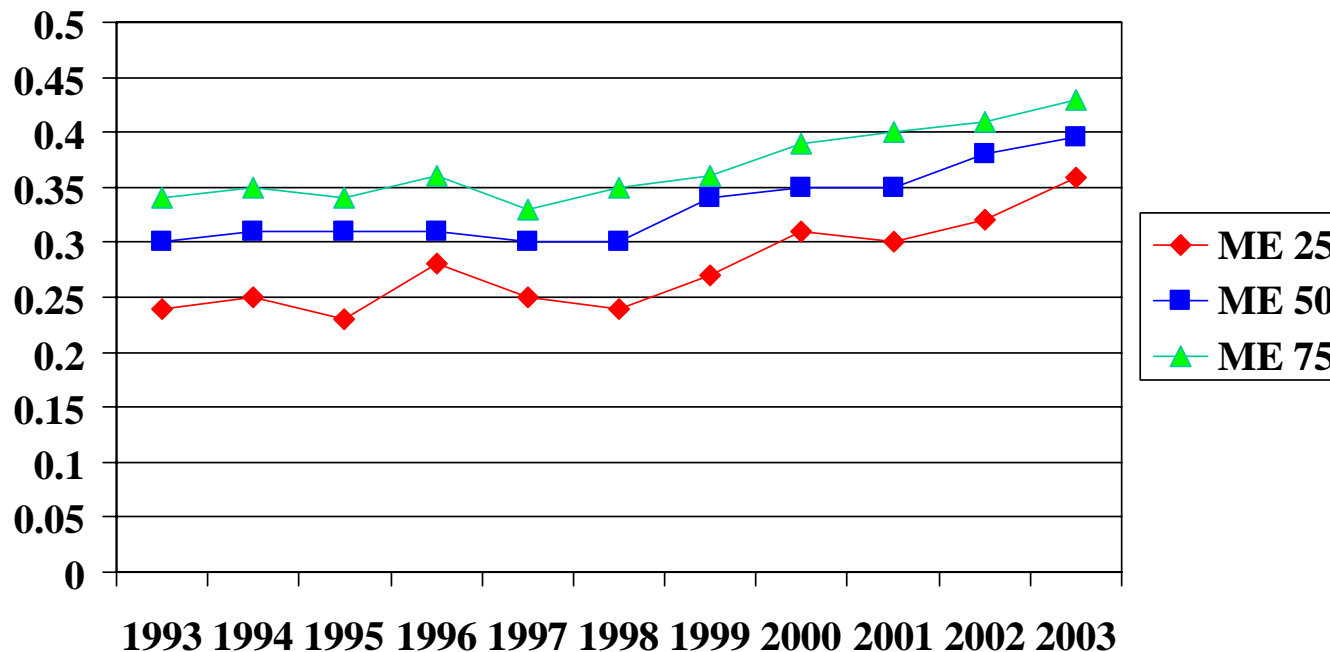
- In 2003, 13 hospitals had operating margins greater than 3%, 13 had margins between 0 and 3%, and 10 hospitals had negative margins. The Dirigo 3% operating limit applies to consolidated margins of *health systems*; this chart shows margins of *hospital entities*, which are subsets of health system.
- The 13 hospitals above 3% generated 91% of aggregate operating income; if those hospitals had been constrained to a 3% margin at the hospital entity level, they would have made \$16 million less operating profit.

Markup Trend 1993-2003



- Median and top quartile markup (of charges above cost) rises slightly but declines for the lowest quartile. However...

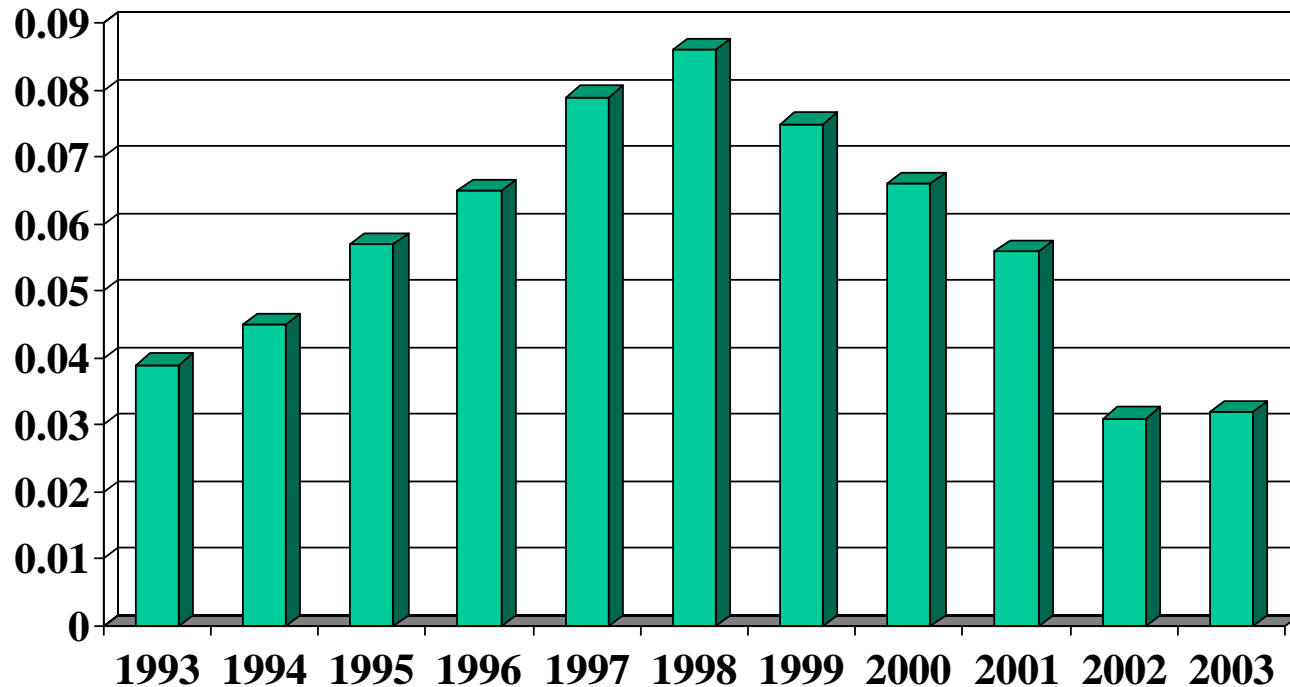
Deductible Trend 1993-2003



- ...the deductible ratio (the “discount” off charges) steadily rises in all quartiles, suggesting downward pressure on revenues from third party payers...

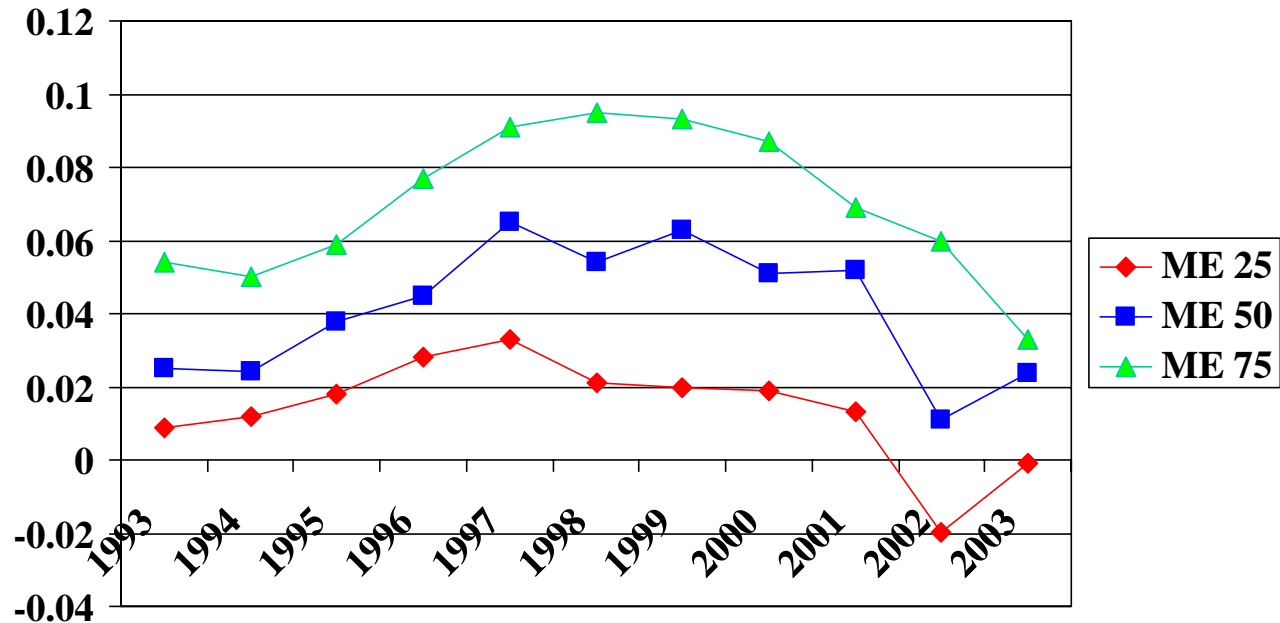
- ...the findings in the previous two slides suggest that the profitability increase in 2003 is more from holding down operating costs than on increasing revenues.

Aggregate Total Margins



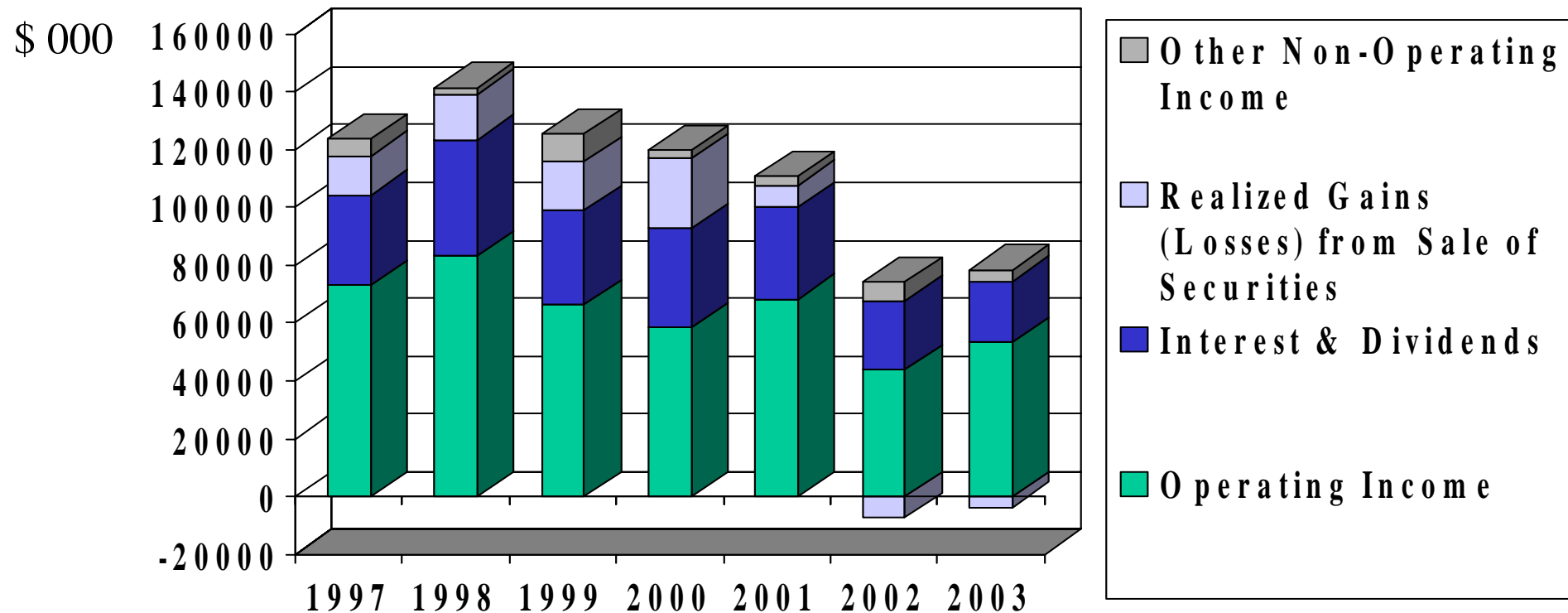
- 2003 aggregate total margins (profit from operations plus from investments, capital gains & losses, and other non-operating activities) were basically unchanged from 2002.

Total Margin Distribution 1993-2003



- for the lower-performing hospitals (bottom two lines), total margin (the ratio of all income, including investment income, over all revenues) has improved dramatically, while for the higher performers, it has come down quite a bit from 2002

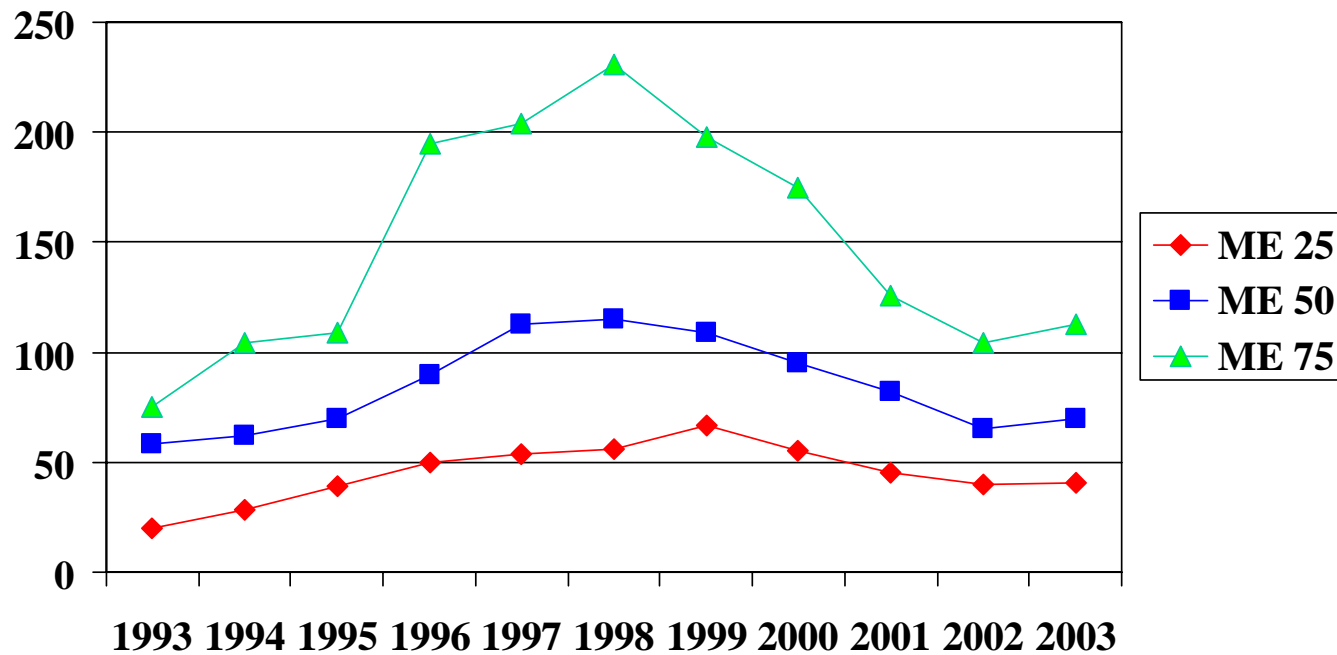
Measuring Financial Health: Excess Revenue by Source, 1997-2003



- This slide shows the improvement by component of total income; in particular, hospital losses on marketable security trades have decreased (section of bar below \$0 in 2002 and 2003), and operating income is a higher proportion of total income than in 2002.

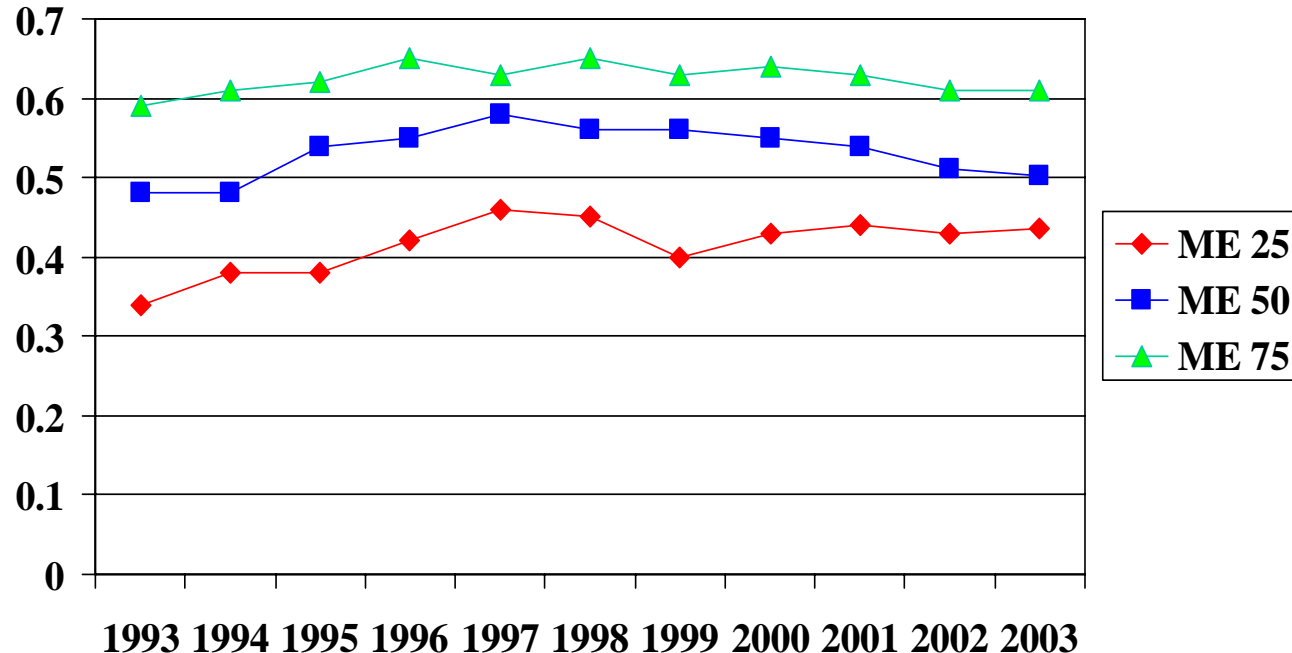
Days Cash on Hand, Incl BD

1993-2003



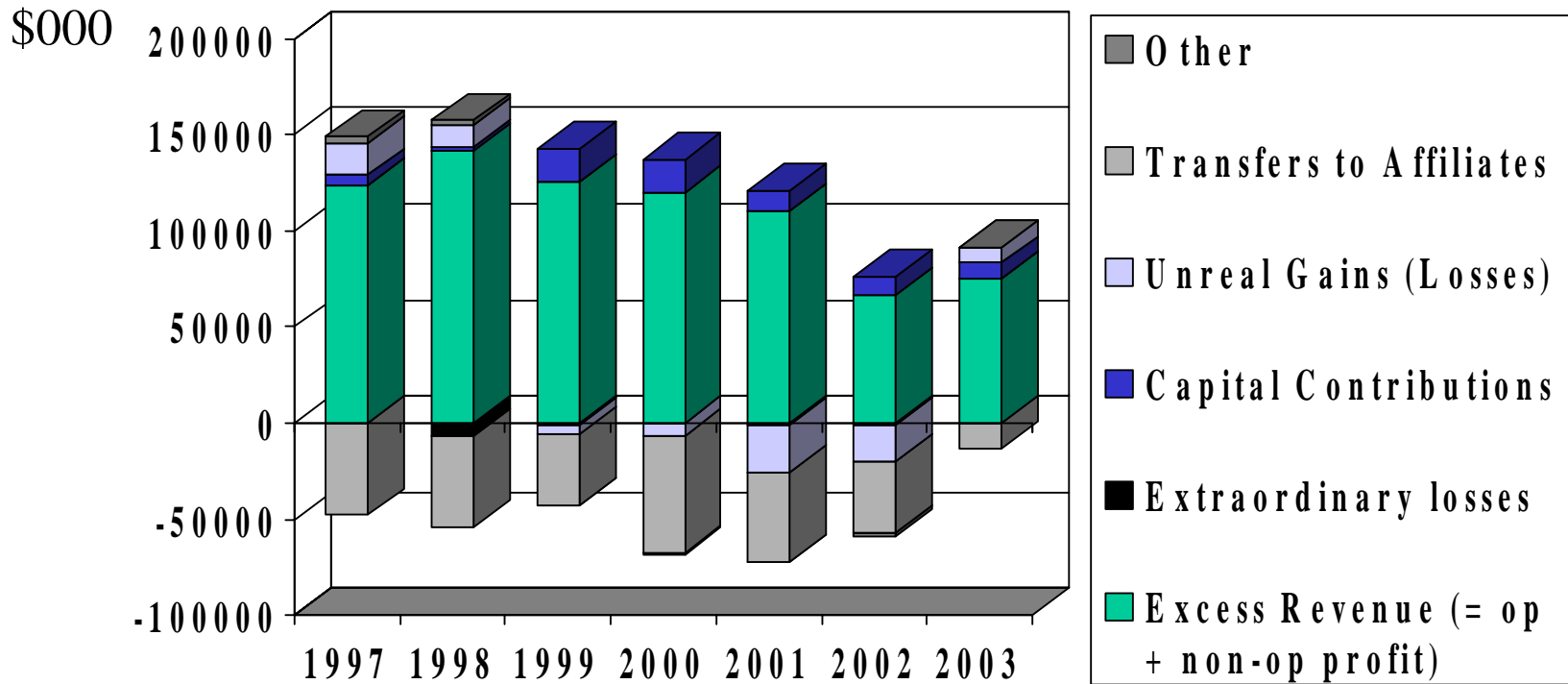
- There was an upturn in days cash on hand over 2002, particularly for the higher quartile hospitals (those with more cash improved more).

Equity Financing Ratio 1993-2003



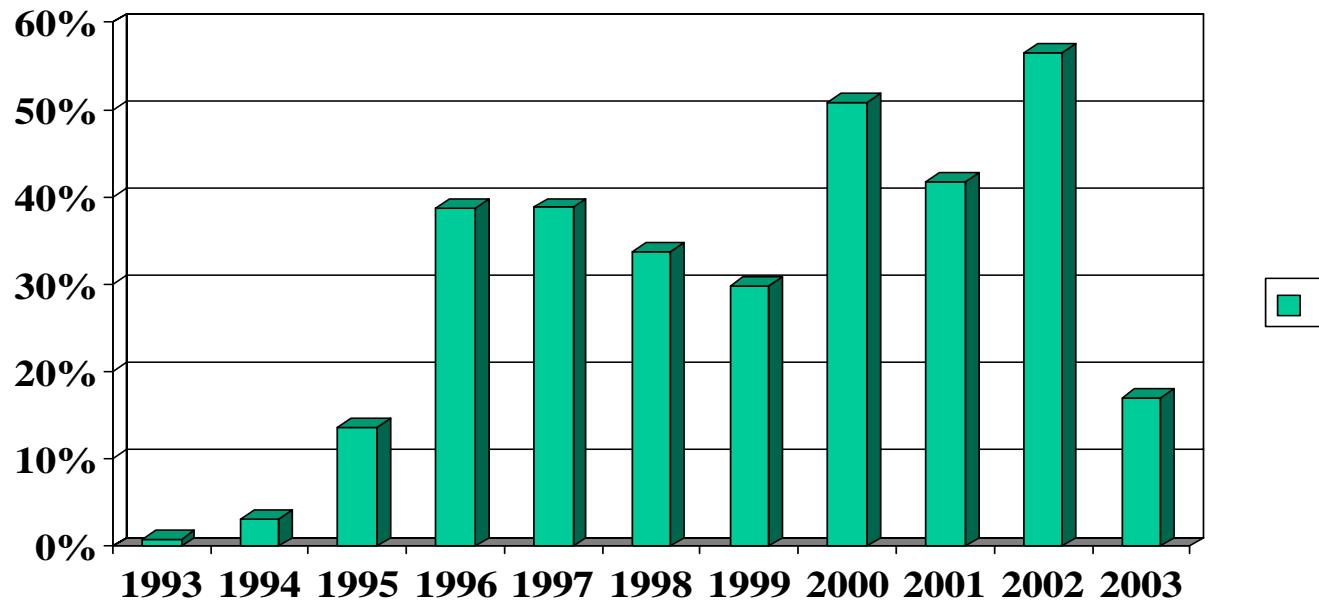
- Equity financing ratios refer to the proportion of total capital that is not debt. 2003 levels are basically unchanged over 2002. However...

Change in Unrestricted Net Assets 1997-2003



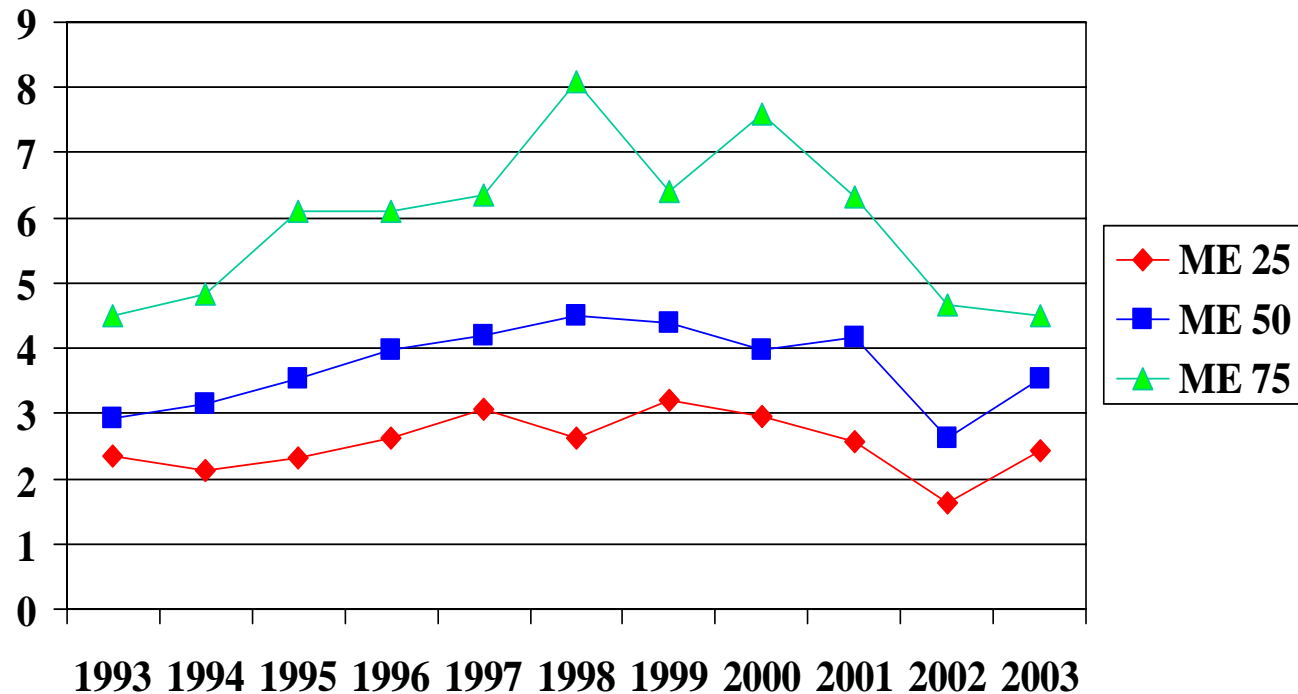
- ... the erosion of equity due to unrealized losses (from holding marketable securities) appears to have stopped, and even more important, the cash outflow to affiliates is greatly down in 2003 from 2002.
- (Unrestricted Net Assets is the nonprofit version of the term “equity” or “net worth” for corporations)

Percentage of Hospital Excess Revenue Transferred to Subsidiaries and Affiliates within System



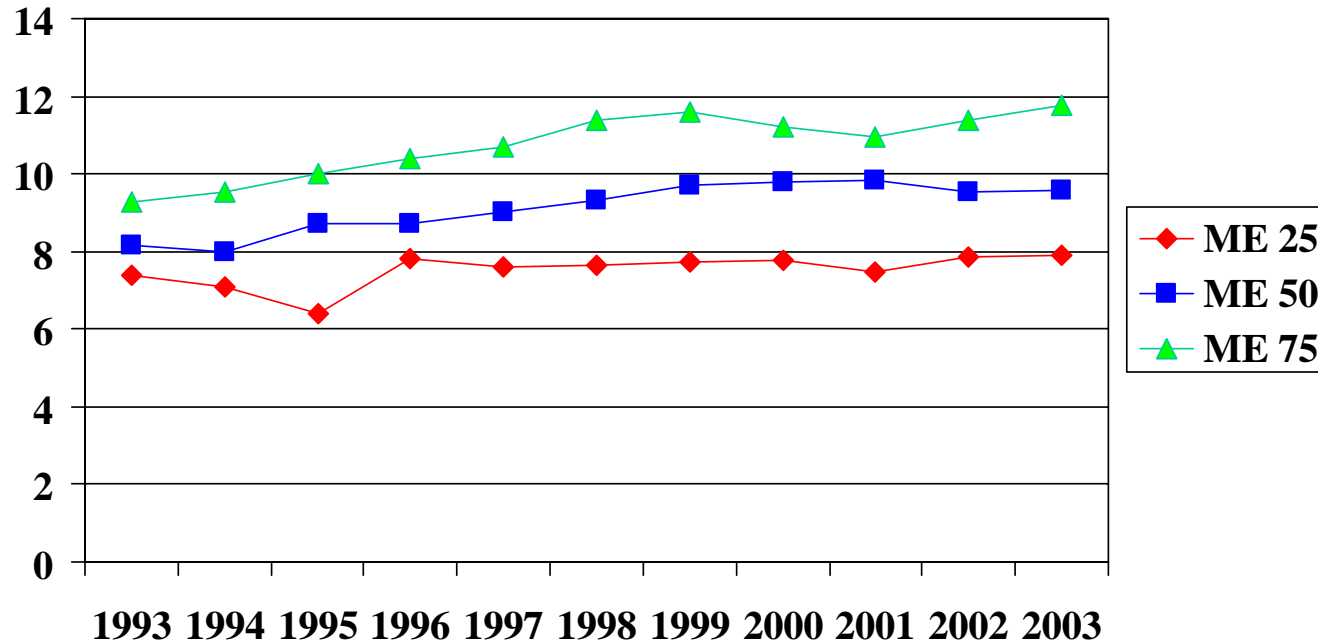
- This slide highlights the significant decrease from the previous year in the percentage of excess revenues going to affiliates between 2002 and 2003. The Commission might want to look into the reason for the decrease to affiliates, since much of the outflow to affiliates through 2002 went to subsidize hospital-owned physician practice losses; e.g., have physician practices become more profitable? have some of the more unprofitable practices been closed?

Debt Service Coverage 1993-2003



- This slide shows improvement in hospitals' ability to repay debt, especially in the lower two quartiles; this is a reflection of the improvement in profitability in those quartiles mentioned earlier.

Plant Age 1993-2003



- Plant age shows continued slow aging in the oldest quartile -- with other quartiles holding their age steady (maintaining their plant).

- The upcoming aggregate cash flow statement shows the sources and uses of cash. The sources of cash shown on the statement are:
 - Operating Income; i.e., profit from operations;
 - Non-op. Revenue; i.e., profit from investments, capital gains, and other non-operating activities;
 - Non-Cash Expenses (mostly depreciation);
 - Working Capital; i.e., revenues not yet received in cash (receivables), operating expenses not yet paid in cash;
 - Capital Donations; i.e., proceeds from building fund drive; and
 - Net Long-Term Debt: amounts borrowed, net of amounts repaid to outside creditors.

- The 2003 aggregate cash flow statement (next slide) shows, in aggregate, a positive financial pattern.
- Internally-generated (eg, not borrowed) cash plus capital donations provided 88% of the roughly \$270 million in total sources of cash in 2003. Most of that went into improving property, plant, and equipment (69%); another 23% went into increasing cash and marketable securities balances.

2003 Aggregate Cash Flow Statement

Sources	\$000	% Total	Uses	\$000	% Total
Operating Income	53,558	20%	PP&E	186,623	69%
Non-op. Revenue	21,358	8%	Incr Cash	61,765	23%
Noncash Expenses	133,839	50%	Affiliate Transacts	19,480	7%
Working Capital	19,520	7%	Other	2,127	lt 1%
Capital Donations	8,822	3%			
Net Longterm Debt	32,897	12%			
Total Sources	269,995	100%	Total Uses	269,995	100%